

P&O Nedlloyd Container Line Limited

Directors' Report and Accounts

31 December 1996

(Company No: 3279820)



P&O NEDLLOYD CONTAINER LINE LIMITED
REPORT OF THE DIRECTORS FOR THE PERIOD
ENDED 31 DECEMBER 1996

1. The directors present their report and accounts of the group for the period ended 31 December 1996.
2. **Results**
The profit and loss account for the period is set out on page 5.
3. **Dividends**
The directors do not propose the payment of a dividend in respect of the period ended 31 December 1996.
4. **Principal activities of the company and review of the period.**
The principal activity of the group is the operating of container through transport and related services. The company was formed on 13 November 1996 to act as the holding company for the union of P&O Containers Limited (now renamed P&O Nedlloyd Limited) and Nedlloyd Lines BV (now renamed P&O Nedlloyd BV).

To this end, the company acquired the whole of the issued share capital of P&O Containers Limited on 25 November 1996 and acquired the whole of the issued share capital of Nedlloyd Holding BV (which holds 99% of the issued capital of Nedlloyd Lines BV) on 31 December 1996. The accounts include the results of P&O Containers Limited for the period since 1 December 1996, being the nearest practical date to the date of acquisition.

The group now ranks as one of the top three liner operations in the world and has the widest route network of any liner group. This results from the complementary strengths of the partners, especially in North/South trades into and out of the Far East, in which field it is the leader. The group is also by far the largest in the Europe/Far East trade, needing only a fuller presence to be developed in the Transpacific trade to complement its other strengths. The union has provided considerable opportunity for major rationalisation which should enable more than US\$200 million of annual costs to be saved. Further consolidation in the industry is expected.

The company's financial position at the end of the period was satisfactory.

5. **Post balance sheet event**
On 1 April 1998 the group acquired the container shipping business of Blue Star Line Limited for approximately \$100 million.

P&O NEDLLOYD CONTAINER LINE LIMITED
REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 31 DECEMBER 1996

6. **Directors**

The directors of the company during the period were:

The Lord Sterling of Plaistow	Appointed 31 December 1996
L.J.M. Berendsen	Appointed 31 December 1996
V.L. Bijvoets	Appointed 31 December 1996
T.C. Harris	Appointed 13 November 1996
Sir Bruce MacPhail	Appointed 31 December 1996
H.H. Meijer	Appointed 31 December 1996
R.P.M. Van Slobbe	Appointed 31 December 1996
R.B. Woods	Appointed 13 November 1996

7. **Directors' interests in group companies**

According to the register of directors' interests kept under Section 325 of the Companies Act 1985, no directors had a disclosable interest in either the shares of the company or any other group company at the end of the period.

The company maintains Directors' and officers' liability insurance which provides insurance cover for Directors and other officers of the company.

8. **Employment Policies**

The group's communication and consultation with employees is effected mainly through working groups. These meet regularly and information about the company and matters affecting employees are communicated and discussed and employees' concerns and suggestions are considered. In addition:

- (a) elected amenities committees meet at regular intervals to discuss particular matters, such as staff restaurant and office accommodation facilities;
- (b) all employees receive a staff handbook and are informed of important developments and job opportunities through the internal email system. Employees also receive monthly company newspapers, the appropriate issues of which include a summary of the relevant financial information.

P&O Nedlloyd Container Line Limited is committed to ensuring that no discrimination is practised against any employee or prospective employee on grounds of colour, race, creed or sex. In particular the group employs registered disabled persons and has a policy of giving full and fair consideration to applications for employment from registered disabled people. In cases where disablement occurs whilst in service, group policy is, as far as possible, to continue employment and to arrange for any necessary re-training facilities. Opportunities for training, career development and promotion apply equally across the company to disabled and non-disabled alike.

P&O NEDLLOYD CONTAINER LINE LIMITED
REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 31 DECEMBER 1996

9. **Political and Charitable Contributions**

There were no political or charitable donations during the period under review.

25 June 1998

BY ORDER OF THE BOARD

G. R. Cheeseman


Secretary

P&O NEDLLOYD CONTAINER LINE LIMITED
STATEMENT OF DIRECTORS RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- * Select suitable accounting policies and then apply them consistently;
- * Make judgements and estimates that are reasonable and prudent;
- * State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- * Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

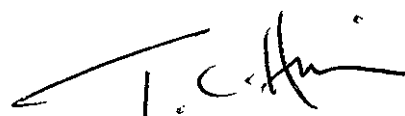
P&O NEDLLOYD CONTAINER LINE LIMITED
GROUP PROFIT AND LOSS ACCOUNT FOR THE PERIOD
ENDED 31 DECEMBER 1996

	Notes	1996 \$m
Turnover	2	181.9
Net operating costs	3	(176.8)
Share of pre tax results of associates		0.5
Operating profit		<u>5.6</u>
Loss on sale of fixed assets		<u>(0.4)</u>
Profit on ordinary activities before interest		5.2
Net interest and similar items	6	<u>(2.7)</u>
Profit on ordinary activities before taxation		2.5
Tax on profit on ordinary activities	7	<u>1.3</u>
Profit on ordinary activities after taxation		3.8
Equity minority interests	16	<u>(1.7)</u>
Retained profit for the financial period	18	<u><u>2.1</u></u>

P&O NEDLLOYD CONTAINER LINE LIMITED
GROUP AND COMPANY BALANCE SHEETS AS AT 31 DECEMBER 1996

		Group	Company
		1996	1996
	Notes	\$m	\$m
Fixed assets			
Tangible assets	8	2151.9	-
Investments	9	14.2	972.4
		<u>2166.1</u>	<u>972.4</u>
Current assets			
Stocks and work in progress	10	188.6	-
Debtors	11	1039.9	637.4
Investments	12	100.0	-
Cash at bank and in hand		39.2	-
		<u>1367.7</u>	<u>637.4</u>
Creditors - amounts falling due within one year	13	<u>(1855.1)</u>	<u>(65.0)</u>
Net current (liabilities)/assets		<u>(487.4)</u>	<u>572.4</u>
Total assets less current liabilities		<u>1678.7</u>	<u>1544.8</u>
Creditors - amounts falling due after more than one year	14	93.6	-
Provisions for liabilities and charges	15	20.4	-
Equity minority interests	16	17.7	-
Capital and reserves			
Called up share capital	17	1.6	1.6
Share premium account	17	1543.2	1543.2
Profit and loss account	18	2.2	-
Equity Shareholders' funds		<u>1547.0</u>	<u>1544.8</u>
		<u>1678.7</u>	<u>1544.8</u>

These accounts were approved by the board on 25/6/1998 and signed on its behalf by:



T C HARRIS
DIRECTOR

P&O NEDLLOYD CONTAINER LINE LIMITED
GROUP CASH FLOW STATEMENT FOR THE PERIOD ENDED
31 DECEMBER 1996

	Note	1996 \$m	1996 \$m
Net cash inflow from operating activities	19(a)		7.6
<i>Returns on investments and servicing of finance</i>			
Interest paid		(2.2)	
		—	(2.2)
Net cash inflow from returns on investments and servicing of finance			
<i>Capital expenditure and financial investment</i>			
Purchase of investments and other fixed assets		(36.1)	
Sale of investments and other fixed assets		<u>1.5</u>	
Net cash outflow for capital expenditure and financial investments			(34.6)
Net cash outflow before financing			<u>(29.2)</u>
<i>Financing</i>			
Issue of share capital		197.4	
Loan drawdown		525.0	
Loan repayment		(670.7)	
Finance lease capital payments		<u>(4.3)</u>	
Net cash inflow from financing			<u>47.4</u>
Increase in cash	19(b)		<u>18.2</u>

P&O NEDLLOYD CONTAINER LINE LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE PERIOD ENDED 31 DECEMBER 1996

	1996 \$m
Profit for the period attributable to shareholders	2.1
Currency translation - average to closing	0.1
Total recognised gains and losses for the period	<u>2.2</u>

RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS
FOR THE PERIOD ENDED 31 DECEMBER 1996

	1996 \$m
Total recognised gains and losses for the period	2.2
New shares issued	1544.8
Net addition to equity shareholders' funds	<u>1547.0</u>
Equity shareholders' funds at beginning of the period	-
Equity shareholders' funds at the end of the period	<u>1547.0</u>

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

Principal Accounting Policies

(a) Accounting convention

The accounts are prepared on the historical cost basis and in accordance with applicable United Kingdom accounting standards.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (including the UK partnership in which they participate) together with the Group's interest in its associates. Results of subsidiaries and associates acquired or sold during the year are included from or to the effective date of acquisition or sale. Goodwill arising on consolidation is deducted from reserves. The profit or loss on sale of a previously acquired business includes the attributable goodwill. In accordance with section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company only is not presented.

(c) Turnover

Turnover represents the amounts invoiced to customers, excluding VAT and similar sales taxes, in respect of shipping and transport operations completed during the accounting period.

(d) Segmental reporting

The directors regard all group activities as relating to the container through transport business.

- (i) The analysis of turnover by origin is derived by allocating revenue to the area in which the cargo originated. The analysis of turnover by destination is derived by allocating revenue to the area in which the cargo is delivered.
- (ii) Operating profit resulting from turnover generated in each geographical area according to origin/destination is not disclosed as it is neither practical nor meaningful to allocate the group's operating expenditure on this basis.
- (iii) Geographical analysis of net assets. The major revenue earning assets of the group are comprised of the ship and container fleets, the majority of which are registered in the United Kingdom and the Netherlands. Since the group's fleets are employed flexibly across its worldwide route network, it is not appropriate to allocate such assets and related liabilities to geographical segments.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

1. Principal Accounting Policies - continued.

(e) Operating Profit

Operating profit includes the results of all shipping and transport operations completed during the accounting period. Revenue and costs in respect of such operations which are not complete at the end of the period are carried forward as "Deferred Income" and within "Stocks and Work in Progress" respectively. The company participates in certain operating arrangements with other shipping lines. The results thereof are accounted for on an accruals basis, estimates being used to the extent that final information is not available.

(f) Foreign Currencies

The company's functional currency is the US dollar. At 31 December 1996 the US dollar: sterling exchange rate was 1:0.584.

Transactions denominated in foreign currencies are translated at the exchange rate ruling on the date on which each transaction occurs or at the rate specified in any related forward exchange contract.

At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date or at the rates specified in any related forward exchange contracts.

The results of subsidiaries and branches which have currencies of operation other than US dollars have been translated at average exchange rates.

Exchange differences arising from the retranslation of the opening net assets of subsidiaries, branches and associates which have currencies of operation other than US dollars and any related loans are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

(g) Fixed Assets

i. The properties are included in the accounts at their cost to the group. No depreciation is provided in respect of freehold land and buildings or leasehold land and buildings where the remaining life of the lease is 21 years or more as, in the opinion of the directors, any element of depreciation would be immaterial. Leasehold land and buildings are depreciated on a straight line basis over the remaining life of the lease where the remaining life of the lease is less than 21 years.

ii. Interest incurred in respect of payments on account of assets under construction is capitalised to the cost of the asset concerned.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

1. Principal Accounting Policies - continued.

- iii. Depreciation of other fixed assets is calculated on a straight line basis so as to write off their cost less their estimated residual value over their expected useful lives, which are normally:

Container Ships	25-30 years
Containers and Trailers	10-15 years
Other Plant and Equipment	4-15 years
Software	3-5 years

(h) Finance Leases and Similar Arrangements

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis, over the period of the lease.

(i) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost or net realisable value.

(j) Dry-Docking Costs

Costs incurred on the dry-docking of ships are carried forward and expensed over the period to the next dry docking.

(k) Deferred Taxation

Provisions are made for deferred taxation using the liability method, on short-term timing differences and all other material differences to the extent that it is probable that the liabilities will crystallise in the foreseeable future.

(l) Pension Schemes

Contributions in respect of defined benefit pension schemes are calculated as a percentage, agreed on actuarial advice, of the pensionable salaries of employees. The cost of providing pensions is charged to the profit and loss account over the periods benefiting from the service of employees.

Contributions in respect of defined contribution pension schemes are charged to the profit and loss account when they are payable.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

2. Analysis of turnover

	Origin	Destination
	1996	1996
	\$m	\$m
By geographical area		
UK and the Republic of Ireland	25.3	23.2
Continental Europe	47.4	44.9
USA and Canada	20.2	17.4
Australasia and Pacific	23.1	20.9
Far East and Asia	60.3	70.8
Other areas	<u>5.6</u>	<u>4.7</u>
	<u>181.9</u>	<u>181.9</u>

All turnover relates to acquired operations.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

3. Net Operating Costs

1996
\$m

Cost of sales	157.7
Administration expenses	<u>19.1</u>
	<u>176.8</u>

Net operating costs include:-

1996
\$m

Depreciation of tangible fixed assets:

Owned assets	3.0
Leased assets	<u>0.9</u>
	<u>3.9</u>

Hire of ships	9.9
Hire of plant and machinery	8.7
Property rentals	1.8

Auditors' remuneration - Group	0.1
- Company	-

Auditors' remuneration for non-audit work - Group	0.1
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P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

4. Employee Information

The average number of persons employed by the group, including executive directors, was as follows:

	<u>1996</u> <u>Number</u>
In the United Kingdom	1,626
Overseas	3,496
Sea Staff	<u>1,039</u>
	<u>6,161</u>
Employment costs - all employees including executive directors:	<u>\$m</u>
Aggregate gross wages and salaries	17.6
Employers' national insurance contributions, or foreign equivalents	1.5
Employers' pension contributions (note 23)	<u>0.7</u>
Total direct cost of employment	<u>19.8</u>

5. Remuneration of Directors

	1996 \$'000
Amount paid to third parties in respect of directors' services	<u>63</u>
No director received any emoluments from the company or group in respect of managerial or executive services. No pension contributions have been made in respect of any director.	

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

6. Net interest and similar items

	1996 <u>\$m</u>
Bank loans and overdrafts	(0.3)
Interest element of finance leases and similar arrangements	(0.4)
Other loans	<u>(2.2)</u>
	(2.9)
Interest capitalised	0.1
Interest receivable and similar items	<u>0.1</u>
	<u>(2.7)</u>

7. Tax on profit on ordinary activities

	1996 <u>\$m</u>
This comprises:	
United Kingdom corporation tax at 33%	-
Overseas taxation	
Current period	<u>1.3</u>
	<u>1.3</u>

The tax credit for the period relates to the group's activities outside the UK.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

8. Tangible fixed assets

	Land and Buildings		Ships	Containers & Other Plant & Equipment		Total
	Freehold	Leasehold	Owned	Finance Leases	Owned	Finance Leases
	\$m	\$m	\$m	\$m	\$m	\$m
Cost						
On acquisition of subsidiaries	28.4	17.5	1320.8	178.9	552.9	12.5
Additions	-	-	0.2	-	46.5	-
Disposals	-	-	-	-	(1.9)	-
At 31.12.96	28.4	17.5	1321.0	178.9	597.5	12.5
Depreciation						
Charged for the period	-	-	(1.3)	(0.8)	(1.7)	(0.1)
At 31.12.96	-	-	(1.3)	(0.8)	(1.7)	(0.1)
Net Book Value						
At 31.12.96	28.4	17.5	1319.7	178.1	595.8	12.4

P&O NEDLLOYD CONTAINER LINE LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1996**

8. Tangible fixed assets - Continued

	1996 <u>\$m</u>
The net book value of leasehold land and buildings comprises:	
Long leases	16.9
Short leases	<u>0.6</u>
	<u>17.5</u>

- (a) The directors estimate that if all properties were to be realised at their current book values no taxation liabilities would arise.
- (b) Ships under construction included in the above totalled \$19,796,000.
- (c) The cost of ships shown above includes \$123,890 in respect of capitalised interest charges.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

9. Fixed Assets : Investments

	Group 1996	Company 1996
(a) Summary	\$m	\$m
Subsidiary undertakings		
Shares at cost	-	972.4
Associated undertakings		
Shares	13.0	
Associates reserves	0.5	
Loans	<u>0.2</u>	
	13.7	
Other investments		
Unlisted	0.5	
	-----	-----
Total fixed asset investments	<u>14.2</u>	<u>972.4</u>
(b) Movements in fixed asset investments		
	\$m	
Investments in associated undertakings		
On acquisition of subsidiaries	13.0	
Exchange movement	0.2	
Share of retained profit	<u>0.5</u>	
At 31 December 1996	<u>13.7</u>	
Other investments	Unlisted	
	\$m	
On acquisition of subsidiaries	<u>0.5</u>	

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

9. Fixed Assets: Investments - continued

(c) Particulars of Subsidiary and Associated Undertakings

The directors consider that to give full particulars of all subsidiary and associated undertakings included in these accounts would lead to a statement of excessive length. The following information relates to those companies which, in the opinion of the directors, principally affect the profits or assets of the group. Except where indicated the holdings are of ordinary shares and the country of registration or incorporation is Great Britain.

	<u>Notes</u>	<u>Percentage of Share Capital Held</u>
i. Subsidiaries		
Container Ship Operators		
P&O Nedlloyd Limited	3	100.0
P&O Nedlloyd BV	1,2,3	99.0
P&O Swire Containers Limited		75.0
Ellerman Harrison Container Line Limited		65.6
Freight Forwarders		
P&O Nedlloyd Global Logistics Limited		100.0
Damco Maritime International BV	2	100.0
Depot Operators		
Containerbase (Holdings) Limited		100.0
Containerbase Barking (Holdings) Limited		100.0

ii. Notes

1. The shares in P&O Nedlloyd BV which are not held by the Company ("the access shares") are owned in equal proportions by the Company's shareholders. The access shares enable one shareholder to receive its share of distributions of the group's profits made by way of dividends, or a surplus arising on a winding up, directly from P&O Nedlloyd BV. Under the Companies Act 1985 and accounting standards, the results and net assets attributable to such shares fall to be disclosed as minority interests in the consolidated profit and loss account and balance sheet. However, such a treatment would not in the opinion of the directors show a true and fair view of the profits and state of affairs of the company and its subsidiary undertakings so far as concerns members of the company since part of the shareholders economic interest would be shown as a minority interest. Accordingly the interest attributable to such shares has been included within shareholders' funds and no minority interest has been shown in the profit and loss account. It is not possible to quantify the effect since the value of the shares is such that no fixed or determinable amount can be attributed to them.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

9. Fixed Assets: Investments - continued

2. Company incorporated in the Netherlands
3. As from 1 January 1997 P&O Nedlloyd Limited and P&O Nedlloyd BV operate their container shipping activities through a UK partnership under the name "P&O Nedlloyd".
4. With the exception of P&O Nedlloyd Limited, all the above subsidiaries are held by other members of the group.

(d) Acquisition of Subsidiaries

On 25 November 1996 the company acquired all of the issued shares of P&O Containers Limited. The transaction has been accounted for using acquisition accounting.

	Book Value	Re- Valuation Note (i)	Accounting policy alignment Note (ii)	Other Adjustments	Provisional Fair Value
	\$m	\$m	\$m	\$m	\$m
Fixed assets	1328.6	21.1	-	-	1349.7
Current assets	503.9	-	25.6	-	529.5
Total assets	1832.5	21.1	25.6	-	1879.2
Provisions	(15.1)	9.3	-	-	(5.8)
Creditors	(545.5)	(5.3)	(19.3)	0.4	(569.7)
Borrowings	(742.3)	-	-	-	(742.3)
Total liabilities	(1302.9)	4.0	(19.3)	0.4	(1317.8)
Net assests	529.6	25.1	6.3	0.4	561.4
Goodwill					-
Fair value of shares issued (see note 17(b))					561.4

Notes

- (i) The revaluation of ships and containers to reflect their fair value at acquisition.
- (ii) The adoption of P&O Nedlloyd Container Line Limited policies regarding revenue recognition.
- (iii) The results of P&O Containers Limited for the period since acquisition are shown on Page 5.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

9. Fixed Assets: Investments - continued

Until 31 December 1996, P&O Containers Limited prepared accounts in sterling. The information given below has been extracted from those accounts and converted to dollars at an average exchange rate of £1: \$1.666 (1995 £1: \$1.578)

- (iv) The results of P&O Containers Limited and its subsidiaries for the period from 1 January 1996 to the date of acquisition were:

	\$m
Turnover	<u>2144.3</u>
Operating profit	<u>36.1</u>
Profit before tax	6.9
Tax	<u>(6.4)</u>
Profit after tax	0.5
Minorities	<u>(2.4)</u>
Loss after minorities	<u>(1.9)</u>

The profit after tax and minority interests for the year ended 31 December 1995 was \$8.0 million.

- (v) Statement of total recognised gains and losses for the period from 1 January 1996 to the date of acquisition.

	\$m
Profit for the period	0.5
Currency translation - differences on foreign currency investment	<u>(59.5)</u>
Total recognised gains and losses for the period	<u>(59.0)</u>

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

9. Fixed Assets: Investments - continued.

On 31 December 1996 the company acquired all of the Nedlloyd Lines BV group. The transaction has been accounted for using acquisition accounting.

	Book Value	Re- Valuation Note (vi)	Accounting policy alignment Note (vii)	Other Adjustments	Provisional Fair Value
	\$m	\$m	\$m	\$m	\$m
Fixed assets	849.9	(79.2)	4.4	0.1	775.2
Current assets	389.0	-	33.8	1.1	423.9
Total assets	1238.9	(79.2)	38.2	1.2	1199.1
Provisions	(14.8)	-	-	-	(14.8)
Creditors	(232.7)	-	(108.1)	(0.2)	(341.0)
Borrowings	(432.3)	-	-	-	(432.3)
Total liabilities	(679.8)	-	(108.1)	(0.2)	(788.1)
Net assests	559.1	(79.2)	(69.9)	1.0	411.0
Goodwill					-
Fair value of shares issued (see note 17(b))					411.0

Notes

- (vi) The revaluation of ships and containers to reflect their fair value at acquisition.
- (vii) The adoption of P&O Nedlloyd Container Line Limited accounting policies re (i) capital expenditure on ships operating under Vessel Sharing Agreements and (ii) revenue recognition.
- (viii) Since Nedlloyd Lines BV was acquired on 31 December 1996, that company contributed neither a profit nor a loss in the period ended 31 December 1996.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

9. Fixed Assets: Investments - continued.

- (ix) The results of Nedlloyd Lines BV and its subsidiaries for the year to 31 December 1996 were:-

	\$m
Turnover	<u>1582.6</u>
Operating loss	<u>(12.0)</u>
Loss before tax	(14.2)
Tax	<u>0.1</u>
Retained Loss	<u>(14.1)</u>

The profit after tax and minority interests for the year ended 31 December 1995 was \$2.0m

- (x) Statement of total recognised gains and losses for the year ended 31 December 1996.

	\$m
Loss for the period	(14.1)
Currency translation - average to closing	0.2
Currency translation - differences on foreign currency investment	<u>2.4</u>
Total recognised gains and losses for the period	<u>(11.5)</u>

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

	Group 1996	Company 1996
10. Stocks and work in progress		
	\$m	\$m
Raw Material and consumables	24.4	-
Work in progress	<u>164.2</u>	<u>-</u>
	<u>188.6</u>	<u>-</u>
11. Debtors	Group 1996	Company 1996
	\$m	\$m
Amounts falling due within one year		
Trade debtors	419.9	
Subsidiary undertakings	-	262.4
Promissory notes (see note 17 (b))	375.0	375.0
Other debtors	125.2	-
Prepayments	<u>117.3</u>	<u>-</u>
	1037.4	637.4
Amounts falling due after more than one year		
Advances	<u>2.5</u>	<u>-</u>
	<u>1039.9</u>	<u>637.4</u>
The promissory notes were repaid in early 1997.		
12. Investments		
The investment represents the group's 30% interest in Europe Combined Terminals B.V. which was re-acquired by Royal Nedlloyd NV during 1997 at book value.		
13. Creditors: amounts falling due within one year		
	Group 1996	Company 1996
	\$m	\$m
Short term component of long term debt		
Lease finance	<u>24.7</u>	-
Short term debt		
Shareholder loans (unsecured)	383.3	65.0
Bank loans and overdrafts (unsecured)	544.1	-
Loans from associated undertakings	<u>2.2</u>	<u>-</u>
	<u>929.6</u>	<u>65.0</u>

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

13. Creditors: amounts falling due within one year - continued

	Group 1996 \$m	Company 1996 \$m
Trade and other creditors		
Trade creditors	328.6	-
Deferred income	265.1	-
Social security	4.8	-
Other creditors - unsecured	169.4	-
Accruals	<u>132.9</u>	<u>-</u>
	<u>900.8</u>	<u>-</u>
	<u>1855.1</u>	<u>65.0</u>

14. Creditors: amounts falling due after more than one year

	Group 1996 \$m	Company 1996 \$m
Bank loans secured		
Payable between 2 and 5 years	19.3	-
Lease finance		
Payable between 2 and 5 years	26.3	-
Payable after 5 years	47.9	-
Other creditors	<u>0.1</u>	<u>-</u>
	<u>93.6</u>	<u>-</u>

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

14. Creditors : amounts falling due after more than one year-continued.

- (a) Interest is payable on bank loans at varying commercial rates.
- (b) The interest elements of finance leases are fixed at various commercial rates reduced, in the case of leases with tax variation clauses, to reflect changes in the rate of corporation tax.
- (c) The bank loans are secured by fixed and floating charges over the assets of the group.

15. Provision for liabilities and charges

	Group \$m	Company \$m
On acquisition	20.6	
Profit and loss account	<u>(0.2)</u>	<u>-</u>
	<u>20.4</u>	<u>-</u>

Provisions includes \$10.3 million in respect of pensions and \$3.2 million for holiday pay.

Deferred Taxation

- (a) No provision is made in the accounts for deferred taxation. The full potential liability is set out below and has been calculated at the expected long-term tax rate of 30%
- (b) Analysis of Potential Liability of the group

	Group 1996 \$m	Company 1996 \$m
Accelerated allowances on fixed assets	202.4	-
Short term timing differences	<u>(9.0)</u>	<u>-</u>
	<u>193.4</u>	<u>-</u>

No deferred tax has been provided in respect of the accumulated reserves of non-UK subsidiaries on the grounds that the potential deferred tax liability relating to these is unlikely to crystallise in the foreseeable future.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

16. Equity minority interests

	1996 <u>\$m</u>
On acquisition of subsidiaries	16.0
Proportion of profit on ordinary activities after taxation	<u>1.7</u> <u>17.7</u>

17. Called up share capital

	1996 <u>\$m</u>
(a) Authorised allotted, called up and fully paid share capital is as follows	
800,000 Ordinary A Shares of \$1 each	0.8
800,000 Ordinary B Shares of \$1 each	0.8
1 Deferred share of £1	-
	<u>1.6</u>

The deferred share is a non voting share which carries no rights to participate in any distribution of profit and upon liquidation or other return of capital would receive an amount not exceeding its par value.

(b) Movements on share capital and share premium account

	<u>Share Capital</u>		<u>Share Premium</u>
	<u>Number</u>	<u>\$m</u>	<u>\$m</u>
Shares issued on incorporation	1	-	-
Shares issued in exchange for promissory notes	375,000	0.4	374.6
Shares issued re acquisition of P&O Containers Ltd	700,000	0.7	560.7
Shares issued re acquisition of Nedlloyd Lines BV	525,000	0.5	410.5
Cash received in respect of shares issued	-	<u>-</u>	<u>197.4</u>
Balance at period end		<u>1.6</u>	<u>1543.2</u>

The cash consideration is based upon a draft agreement between the shareholders.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

18. Profit and loss account

	<u>\$m</u>
Retained profit for the period	2.1
Currency translation - average to closing	<u>0.1</u>
Balance at 31 December 1996	<u>2.2</u>

The company did not trade during the period and made neither a profit nor a loss.

19. Notes to the Group cash flow statement

	1996 \$m
a) Reconciliation of operating profit to net cash flow from operating activities	
Operating profit	5.6
Depreciation	3.9
Share of pre tax profit of associates	(0.5)
Increase working capital	(1.4)
Net cash inflow from operating activities	<u>7.6</u>
b) Reconciliation of net cash flow to movement in net debt.	
Increase in cash in the period	18.2
Cash (inflow) from changes in loans and lease financing	(47.4)
Changes in net debt resulting from cash flows	<u>(29.2)</u>
Borrowings of subsidiaries acquired	(1174.6)
Issue of share capital	197.4
Issue of promissory notes	<u>375.0</u>
	<u>(602.2)</u>
Movement in net debt in the period	<u>(631.4)</u>

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

19. Notes to the group cash flow statement - continued.

c) Analysis of net debt

	On Acquisition	Cash Flow	At 31 December 1996
	\$m	\$m	\$m
Cash available on demand	28.6	10.6	39.2
Overdrafts	(35.9)	7.6	(28.3)
Loans due after one year	(19.3)	-	(19.3)
Loans due within one year	(472.4)	(51.7)	(524.1)
Finance leases due after one year	(78.5)	4.3	(74.2)
Finance leases due within one year	<u>(24.7)</u>	<u>-</u>	<u>(24.7)</u>
	<u>(602.2)</u>	<u>(29.2)</u>	<u>(631.4)</u>

The net debt balances are represented by "cash at bank and in hand", "bank loans-secured", "bank loans and overdrafts-unsecured", "promissory notes", "shareholders loans" and "finance leases".

20. Capital Expenditure and Commitments

Expenditure on fixed assets

	Group 1996	Company 1996
	\$m	\$m
Contracts placed but for which provision has not been made	<u>380.2</u>	<u>-</u>

21. Obligations under Operating Leases

Annual commitments under non-cancellable operating leases at the balance sheet date were as follows:

	1996	
	Land and Buildings	Other Leases
	\$m	\$m
Operating leases which expire:		
Within one year	9.3	63.2
In the second to fifth year inclusive	21.2	210.2
Over five years	<u>8.2</u>	<u>19.1</u>
	<u>38.7</u>	<u>292.5</u>

The majority of leases of land and buildings are subject to rent reviews.
The company has no operating lease commitments.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

22. Contingent Liabilities

The company has entered into certain guarantees in respect of subsidiary and associated undertakings. At 31 December 1997 the amount outstanding under these guarantees was \$22 million. No losses are expected. The guarantees are secured over the net assets of key subsidiaries.

P&O Nedlloyd Container Line Limited is a member of the Trans-Atlantic Conference Agreement (TACA) against which the European Commission in May 1996 issued a Statement of Objections. The principal allegation was that the Conference Lines had a collective dominant position in the North Atlantic shipping market and that they had abused that position. Lawyers to the Conference have advised that both these allegations but especially the latter can be rebutted and that as a result an adverse decision by the Commission would most probably be reversed by the European Court of Justice. They have also been advised that a large fine threatened by the Commission would in any event be severely reduced or quashed by the Court for various legal reasons. Accordingly the directors consider that no material liability will arise and no provision has been made.

23. Pensions

The group participates in a number of pension schemes, including in the UK a scheme operated by The Peninsular and Oriental Steam Navigation Company and various industry wide schemes. One of the industry wide schemes is a defined contribution scheme, all others are of the defined benefit type with assets held in separate trustee administered funds.

The pension costs in respect of both The Peninsular and Oriental Steam Navigation Company scheme and the industry wide schemes are each based on the use of common rates for contributions payable by sponsoring employers. Formal actuarial valuations of the P&O Pension Scheme ("the Scheme") are carried out triennially, the latest being as at 1 April 1997 by Watson Wyatt Partners, consulting actuaries, using the projected unit method. The principal assumptions adopted in the valuation were that, over the long term the annual rate of return on investments would be 2.75 percentage points higher than the annual increase in total pensionable remuneration and 4.75 percentage points higher than the annual increase in present and future pension payments. The market value of the scheme's assets at 1 April 1997 was £1,059 million and the actuarial value of those assets represented 98% of the value of the benefits accrued to members allowing for future increases in earnings. This valuation takes account of the removal of the ability of pension schemes to reclaim tax credits on dividend income.

The actuarial valuations of the industry wide schemes in the UK are carried out by Watson Wyatt Partners, consulting actuaries, using the projected unit method, the latest valuation of the schemes being as at 31 March 1996. The schemes' actuaries have advised that the actuarial value of the schemes' assets represents approximately 104 per cent of the value of the benefits accrued to members allowing for future increases in earnings.

P&O NEDLLOYD CONTAINER LINE LIMITED
NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

23. Pensions - continued.

The group participates in the Royal Nedlloyd Pension Fund in the Netherlands, a defined benefit plan with assets held separately from the sponsoring companies.

The pension cost is, in respect of the Royal Nedlloyd schemes, based on a common rate of contribution for each participating employer. However, presently employers' enjoy a contribution holiday which is reviewed on an annual basis. Formal actuarial valuations are carried out annually by independent external consultants, the latest being as at 31 December 1996 using the current unit method. The principal assumption is that, over the long term, the annual rate of return on investments would be 4 percentage points higher than the annual increase in present and future pension payments and accrued pensions. The market value of the Scheme's assets at 31 December 1996 was NLG 2,491 million representing 137 per cent of the value of the benefits accrued to members with no allowance for future increases in earnings.

The industry wide pension fund in the Netherlands has assets at market value of NLG 5,210 million as at 31 December 1996 representing 133% of the value of the benefits accrued to the members with no allowance for future increases in earnings. The principal assumption is that over the long term the annual rate of return on investments would be 4 percentage points higher than the annual increase in present and future pensions. Formal actuarial valuations are carried out annually by independent external consultants.

24. Shareholders

P&O Nedlloyd Container Line Limited is owned 50:50 by The Peninsular and Oriental Steam Navigation Company and Royal Nedlloyd NV and comprises the container shipping businesses of the former P&O Containers Limited and Nedlloyd Lines BV.

Under the terms of FRS 8 (Related Party Disclosures) both shareholders are considered to be related parties of the company. During the period the significant transactions with these parties were the acquisitions of P&O Containers Limited and Nedlloyd Lines BV (see note 9 (d)).

	1996 <u>\$m</u>
Net balance due from related parties at year end:	
Promissory notes	375.0
Loans	<u>(383.3)</u>
	<u>(8.3)</u>

REPORT OF THE AUDITORS

KPMG

TO THE MEMBERS OF

P&O NEDLLOYD CONTAINER LINE LIMITED

We have audited the financial statements on pages 5 to 31.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1996 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG
Chartered Accountants
Registered Auditors
London

26 June 1998